Growing the business

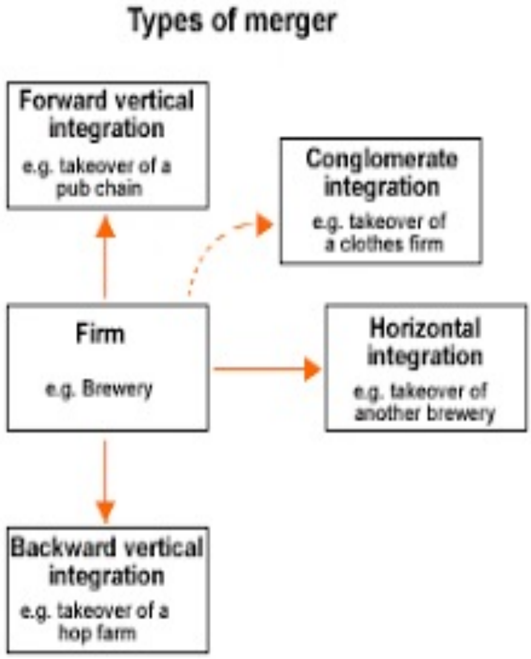
Internal/organic growth:

A business grows from inside by: targeting new markets (new tech to target new segments e.g. e-commerce, employ globalisation, alter the marketing mix) or creating new products (innovate to increase sales)
Pros: inexpensive, less risk
Cons: slow

External/inorganic growth:

A Merger (2 companies join) or takeover (a business buys 51% of another business' shares = hostile)

Pros: quick, lower overall costs, shared resources & skills, reduces competition in 1 monopolistic market; new firm can form a monopoly (big customer base so dominates market with high market share)
Cons: conflicting management styles, cost-cutting = staff redundancies



Economies of scale:

Large businesses: growth = bigger product output = variable & fixed costs increase (more raw materials & staff needed) but costs rise at a slower rate than output = average unit costs decrease
Why?
Bulk buying = cheaper unit cost so more profit to reinvest for further expansion
Capital intensive operations so output increases with advanced machinery
Law of increased dimensions: factory 10x as big = 10x less expensive (profit from increased sales due to big production capacity = more than running costs)

Diseconomies of scale:

Growth increases unit costs
Big firm = long chain of command = unproductive workforce (demotivated as not involved in decisions)
Complexity makes business coordination more difficult

Sources of finance: large businesses

Internal: retained profits (but under pressure to give large dividends to shareholders= less retained profit) & fixed assets (selling assets e.g. offices & machinery but limits are set)

External: loan capital (have valuable assets if they can't repay big loans & established firms get loans easier as bank sees less risk) & share capital (finance doesn't have to be repaid but shareholders expect dividends so original owners lose profit & control)

PLCs:
Undergo stock market flotation to list shares on the stock exchange
Pros: can raise LOTS of capital = growth & diversification, incorporated so limited liabilities
Cons: takeover risk, accounts are made public (even to competitors) & lots of shareholders = lots of dividends are expected

Changes in aims & objectives

Dynamic business environment changes aims & objectives due to:

Market conditions: recessions = no disposable income = no consumer spending = no sales so firms focus on survival, boom = lots of spending so firms focus on growth
Tech: e-commerce & m-commerce = convenient & wide market = firms focus on growth
Business performance: low sales = failing so focus on survival, high sales = thriving so focus on growth (via globalisation, diversification ect)
Legislation: high tariffs & not being in the EU (trade blocs) = focus on survival as cannot grow (no access to free movement of goods & people aka raw materials, skilled staff & customers) + sugar taxes raise prices for consumers so lower sales
Internal reasons: ownership or organisational structure change

How A&O change:

Survival or growth: start-ups survive before undergoing growth to establish themselves
Enter or exit markets: entering = target new segment or innovate, exiting = oligopoly or very saturated market
Size of product range: increase to satisfy needs of different segments to maximise profits if high sales
Size of workforce: expanding & innovating = more skilled staff or takeover = staff redundancies

Globalisation: world is more interconnected due to tech & transport

Impacts:

Imports: larger competing markets to buy from = lower prices cuts production costs but threatens the UK economy as competitors sell more than domestic businesses
Exports: new market segments = maximises sales if tariffs aren't high
Location: factories in emerging countries exploit cheap labour (cuts costs) & are situated closer to raw materials (lower transport costs)
Multinationals: businesses operating in multiple countries increase foreign competition

Barriers to international trade:

Tariffs: imports are taxed to protect domestic markets & this generates profit for the government to invest into UK infrastructure
Trade blocs: free movement of goods & people e.g. in the EU with no tariffs
Quotas: a cap on the number of goods in a country at a time to protect domestic markets

Competing internationally:

Employ e-commerce = wide market, 24/7 with no language barriers = cuts infrastructure costs & rent
Adapt the marketing mix to suit the country's culture

Ethical considerations:

Ethical policies appease stakeholders
Informal economies e.g in China have little gov regulation on policy so TNCs exploit cheap labour, long hours, poor working conditions & dump chemicals into water supplies to cut costs
So firms have ethical frameworks e.g. code of conducts & vow to buy Fair trade raw materials

In the UK, worker's rights are protected by trade unions & some ads e.g. cigarette are banned

Trade-offs between ethics & profit:

Ethical business activity:
Pros: good press, centre marketing around campaigns (no animal testing or carbon offsetting), more productive workforce
Cons: costly as Fair trade goods are less accessible & labour costs are higher = less profit

Environment:

Most businesses produce: visual, air & water pollution
Sustainability measure: recyclable packaging, disposing hazardous waste properly to avoid contamination of water supplies, renewable energy, efficient machinery
Pros: can centre ads around environmental efforts, good press = more sales (+can charge higher prices)
Cons: higher costs, green-washing, carbon offsetting skepticism

Pressure groups:

Aim to alter business decisions
Can run campaigns to boycott unethical firms = bad press = less sales
Altering the marketing mix to incorporate sustainability generates good press

Making marketing decisions:

Marketing mix & Design mix:

Utilising the 4ps gives a competitive advantage to businesses but they interlink so a compromise has to be made (increase prices for higher quality goods)
Method of distribution: e-commerce is cheaper as lower fixed costs are incurred but advertising is more costly than on the high street (close to target market)

Differentiation:

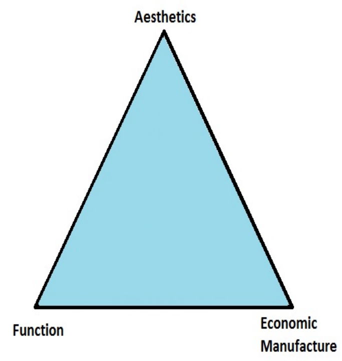
Making your product distinct in a saturated market by altering your marketing mix e.g. employing a USP, marketing, adopting a high volume pricing strategy or an alternatively high margin pricing strategy to emphasise quality in a niche market

How firms achieve added value:

Quality, branding, packaging, convenience & design

All mean firms can raise prices

Design mix:



Function: product has to work as advertised under 2010 Consumer law clause
Cost: high quality product incur higher production costs which higher prices
Aesthetics: packaging can be distinct, the design of a Chanel purse is its USP

Product life cycle:

1. R&D: specialist teams create new goods by exploring the materials & the target market's needs to make manufacturing cost-effective; a loss is made during initial investment
2. Introduction: product is launched, emphasis is on advertising to hit a wide market
3. Growth: demand increases & product is established
4. Maturity: hits break-even at the peak of sales, market saturation occurs
5. Decline: sales drop, no profits due to competition OR an extension strategy is employed to increase the product's life cycle

Extension strategies:

Aim to prolong the inevitability of product decline

Methods:
New packaging: targets new segment
New features: innovation (faster read/write times for a laptop, new OS, more RAM ect), new flavours
New market segments: globalising or diversifying
New ad campaigns: seasonal ads
Lowering price: acts as a USP

Could keep product in maturity stage & make your business a monopoly in a market but very costly & risky

Price:

Set based on demand & value of goods to maximise sales

Internal factors:

Tech: advanced machinery is costly but in the long-term increase output (+ cuts labour costs)
Production method: flow production utilises economies of scale but through expensive machinery
Product life cycle: at the offset, prices are low to generate demand & they are gradually increased in line with competitors'

External factors:

Competition: use competitor-based pricing to maximise sales & dominate the market
Market segments: can charge higher prices to high income customers
Cost of raw materials: high quality goods = higher unit costs = higher prices

An established firm can increase prices in line with product quality if it has a loyal customer base & benefits from economies of scale

Pricing strategies:

Penetration: low initial price to generate demand
Pros: generates new customers, establishes product in the market during the intro stage, loyal customers stay as price gradually increases
Cons: makes a loss at first

Skimming: high initial price to generate demand for innovative products
Pros: establishes quality as USP, high profit margins to cover R&D costs, loyal customers generated within a niche market
Cons: prices being lowered to mass-market the goods betrays initial customers, high risk

Competitive: prices are relative to competitor's within a monopolistic market
Pros: price is not the USP so product differentiates in other ways, can attract new customers
Cons: low profit margins

Premium pricing: always high price
Pros: reflective of high quality, good brand image built (added value), high profit margins
Cons: high risk, loss made if no sales

Predatory pricing: setting prices way below that of competitors
Pros: high sales, good brand image
Cons: illegal & HUGE losses, covering fixed costs is dependant on customers buying other higher priced goods too

Cost-based: profit margin is added onto cost of manufacturing the product
Mark-ups: adding percentage mark-ups
Profit margin: calculate product cost and increase price to make a certain profit
Pros: guarantees profit if sales are made
Cons: not competitive at all, can make a loss if there's no demand

Promotion:

A product's USP is advertised to create a strong brand image, creating a loyal customer base via added value
High costs to promote & costs rely on repeat-purchases

Advertising:

Traditional methods:

Newspapers: wide reach locally & nationally but costly + not widely read
Magazines: target market segments and higher quality but not widely read
Posters & billboard: located near target market (high footfall) but distract drivers & have a short retention time
Leaflets: cheap to distribute with a local reach but viewed as junk mail
TV ads: massive reach, target segments in between shows but VERY expensive

Non-traditional:
Websites: display goods, customer reviews, use cookies & express checkout option but no incentive to go on websites in the 1st place
Pop-ups: interactive but annoying for users
Social media: analytics e.g. likes, shares, stories, posts and influencers, have a WIDE reach but scandals give businesses a bad reputation
Email: targeted marketing; use cookies to personalise newsletters but spam
Sponsorships: high profile, bad-press by affiliation due to celebrity/influencer scandals
Search engines: business pays for its website to be at the top of the webpage, uses cookies but very expensive

Sales promotion:

Special offers (50% off) & Product trials (free samples to generate interest)

Pros: boosts sales in short-term, harness customer loyalty
Cons: reluctancy to buy at full price (discounting luxury goods removes the 'luxury' element= can't charge premium prices afterwards, not maximising profit

New tech:

Social media accounts target market segments, use cookies for targeted advertising, profit off of viral advertising & send promotions via mailing lists

Place:

Have to sell near target market via the appropriate distribution channel
Retailers: big footfall, see goods physically, customer service on site so maximises sales but rent is costly & need good transport links + to satisfy the local community
E-tailers: 24/7, no language barriers for oversea expansion, convenient, saves on rent (have big warehouses in rural areas for cheaper land prices so can utilise economies of scale + make production capital intensive to increase output)

Making operational decisions

Methods of production:

Job: bespoke goods e.g. wedding dresses
Pros: product meets customer needs, premium pricing reflective of quality & time
Cons: skilled labour & manufacturing time = high cost, no economies of scale

Batch: batches of different types of goods e.g. different cupcake flavours
Pros: some machinery so more productive, economies of scale, some variety to meet different customer needs
Cons: unmotivated staff as they're just operating machinery, time-consuming

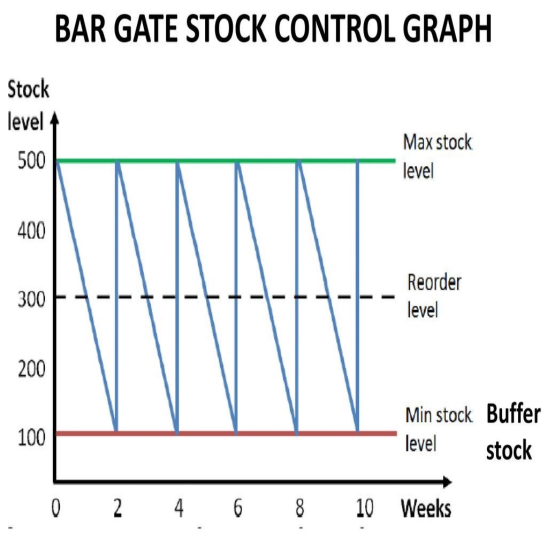
Flow: mass production on an assembly line e.g. of glue sticks
Pros: capital intensive so no random error, 24/7 = highly efficient, low labour costs (no holiday pay needed for machines), economies of scale, high margin pricing strategy so more competitive pricing
Cons: high maintenance machinery costs, no variety to meet the needs of different customer segments

Technology's effect on production:

Pros: robots remove random error so highly efficient + goods are of a consistent quality, 24/7 so continuous production, cheaper costs in long-run
Cons: costly start-up & maintenance costs, faults = production in halted, staff redundancy potential is demotivating, inflexible = lack of variety as machines are suited to 1 task

Managing stock:

JIT: raw materials are ordered from suppliers when customer orders are placed, computer systems automatically reorder when stock level is low
Pros: preserves freshness of perishable goods, saves storage costs, smooth cash flow, no materials are wasted
Cons: no extra stock for demand surges (supplier issues or economic booms) & no economies of scale



Bar Gate stock graphs:

Controls stock levels
Buffer stock = a 'safety net' of extra stock
Minimum level = lowest amount of stock held
Reorder level = suppliers are notified to reorder goods
Lead time = time between an order being placed & its delivery from suppliers
Maximum level = highest amount of stock held

Procurement:

Obtaining raw materials from suppliers
Logistics: the delivery of products amongst the supply chain
Good logistics = maximises efficiency (no breaks in production), reducing overall costs thus unit costs, maximising profit

Choosing suppliers:

Quality: quality of raw material's reflect on the product & business' brand image so quality should be consistent & indicative of the cost of goods
Availability: quick delivery times (especially for JIT) & can increase output (during demand surges)
Delivery: fast delivery so needs to be within a close proximity to the business & reliable delivery (products are securely packaged) to avoid breaks in production
Trust: need consistently high quality goods on demand as the products reflect on the business
Price: cutting costs entails longer delivery times & worse quality goods

Quality:

Depends on raw materials & production method, should be reflected in the price of goods (costs are higher)
High quality goods improve a firm's brand image = can charge premium prices & save costs of customer service & waste (from product returns)

Quality assurance (ALWAYS checked):

Goods are checked throughout the production process to PREVENT defects
Pros: no waste & no returns= good brand image, high staff motivation & productivity
Cons: time consuming, specialist staff are costly

Quality control:

Random samples of goods are checked at the end of the production process
Pros: saves time & costs of specialist inspectors
Cons: samples aren't representative of all products so can cause returns + wastage (defected batches are thrown out) = bad press

Sales process:

1. Finding customers
2. Approaching customers
3. Assessing customer needs
4. Presenting the product
5. Closing
6. Follow-up

Good customer service achieved by:

Good product knowledge from staff: inspires confidence in consumers & queries can be dealt with, other products can be recommended

Engagement: positive interactions e.g. considering customer needs throughout

Quick & efficient service: ease + convenience (e.g. contactless payment) are essential to increase customer satisfaction

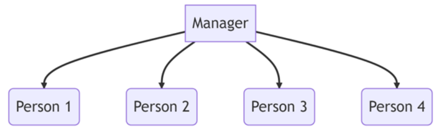
Post-sales service: warranties, user manuals, helplines, servicing builds customer loyalty + a good brand reputation

Customer feedback: firms should reply to feedback & implement it to maximise customer satisfaction

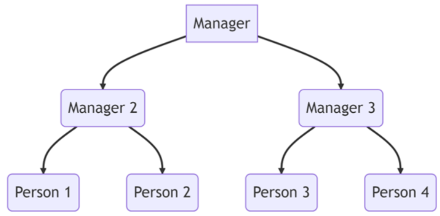
Pros of good customer service: high levels of customer satisfaction & loyalty (=repeat purchases)
Cons of poor customer service: dissatisfied customers see a reduction in sales, a poor brand image & lower market share

Investing into good customer service is costly but in the long-term increases profitability

Making human resource decisions



Internal organisational structures:



Layers in companies:

Directors: decide on business strategy at board meetings
Senior managers: organise the carrying out of director's strategy
Supervisors: oversee groups of support staff
Operational staff: workers who are delegated specific tasks

The chain of command connects directors to operational staff, at each level tasks are delegated downwards
Span of control: how many people a manager is in control of

Hierarchal structures:

Long chain of command = slow communication between top & bottom
Each manager has a narrow span of control = effective as employees are monitored closely
Potential for promotions as layered structure = motivating

Flat structures:

Short chain of command = efficient communication which enhances productivity
Each manager has a wide span of control = difficult to manage lots of employees

Delayering: removal of management to cut costs

Centralised structures:

1 experienced senior manager at the top with a wide span of control e.g. in IT firms like Apple
Pros: uniform policies throughout the business (conveys correct brand image)
Cons: slow communication of ideas (long chain of command), management doesn't consider needs of the whole company & it relies on them having complete expertise

Decentralised structures:

Authority is delegated to regional managers e.g. in supermarkets like Tesco
Pros: utilises expert knowledge of managers within different sectors, quick decision making (no approval needed) = key in competitive markets (need to spot opportunities & fill them rapidly), no need for a headquarters (reducing fixed costs), decisions made closer to customers (improves customer satisfaction rates)
Cons: inconsistencies in company policy so adverts & products don't support overall aims of the business

Small businesses have flat structures (small initial workforces to manage) but after growth, structures are hierarchal to support delegation & organisation of lots of staff + resources, and centralised structures change to decentralised ones to support expanding operations e.g. in different countries leading to higher costs

Communication:

Boosts staff motivation as everyone has clear roles delegated to them
Effective communication has no room for misinterpretation or delay
Barriers to communication:
Noisy environments, personalities: personal conflicts or unapproachability, distance: weak signal + internet connections & difficulty coordinating in person meetings, jargon: technical language that can be easily misunderstood

Balancing insufficient & excessive communication:

Insufficient:
Inefficiency is caused so time & resources are wasted (departments don't fulfil requests) & is demotivating

Excessive:
Inefficiency is caused by information overload, people end up neglecting key info so tasks are incomplete, conflicting information leads to incoherency, reducing productivity & product output, demotivation & stress is induced if employees are contacted after hours

Ways of working:

Full-time: >35hrs/week
Pros: financial security, business has more control over hours worked
Cons: no work/life balance, increases fixed costs

Part-time: >35hrs/week
Pros: flexibility & work/life balance, lower business costs, financial sense to only call in staff during high demand
Cons: financial insecurity

Flexible hours: employees who have been at a firm for >26 weeks can request their hours to be suited to their schedule
Pros: motivating for employees as fits labour around their lives
Cons: may inconvenience businesses during peak demand when labour is needed

Zero-hour contracts: employers doesn't have to offer work, employee doesn't have to accept work
Pros: work/life balance, cheap labour & optimal for business' whose demand fluctuates
Cons: 'in work poverty'

Permanent contracts: no end date
Pros: job & staff security, long-term benefits e.g. promotions for working at a firm incentive productivity & conformance with behavioural codes
Cons: costly, future of businesses are uncertain e.g a recession can evoke bankruptcy leading to staff redundancies with nothing to fall back on

Temporary contracts: fixed periods e.g 6 months
Pros: encourages productivity to prolong position at the job
Cons: staff shortages if employees don't renew contracts (problematic during demand surges)

Freelance contracts: self employed are recruited for projects
Pros: expertise so the job is done well & sees people pursue creative passions
Cons: freelancers charge high rates so costly & some job insecurity (can be dismissed at any time)

Technology:

Has enhanced efficiency of production: computers can be programmed to complete otherwise repetitive tasks, has made communication easier & enables collaborative working, employees can access the firm's intranet from anywhere with a stable internet connection, remote working cuts fixed costs for business BUT robots threaten labour intensive human jobs & their livelihoods

Recruitment:

Job advertisement includes 2 documents: a job description & personal specification, outlining:
The title of the job, the role itself, duties, who the job holder will report to
Qualifications, experience & skills = a CV
The business goes through candidates & selects the best one

Internal recruitment:

Recruiting current employees into new roles
Position is advertised within the company
Pros: cheaper, skilled staff are well versed in the company's policies & management knows the skill set of the candidate
Cons: no new ideas & leaves a vacancy to fill

External recruitment:

Recruiting from outside the business
Position is advertised at job centres, trade journals & local press
Pros: wide reach so finds the best fit to the job, maximal effort goes into the application, new ideas are invited into the firm
Cons: costly to advertise & employee lacks skills, their background could be conjunctive of a different management style or motivation

CVs:

Summarises skills, qualifications & details of prospective employees written in a standard format
Application forms are more relevant to the firm & can be compared by computer software

Training & development:

Ongoing training is needed to retrain staff on how to use new tech for efficiency

Informal training: Done on the job, no strict plan, taught by other workers, cost-effective but bad working practises can be passed on

Formal training: A set schedule in a training department, costly but higher quality teaching so better qualified staff

Performance reviews: employers lay out employee's targets & reward them with promotions fro adherence or offer extra training to improve their performance
Incentivises hard labour = higher output = more sales

Pros of training & development: enhances productivity (lowering unit costs), helps firms compete in accordance with changes in technology, increase staff retention

Motivation:

Crucial for productivity
High staff retention (staff staying at their jobs) = less time & money spent on training new recruits, reducing costs
Attracts new employees so harnesses the best skill sets

Financial motivation:

More remuneration (payment for a job) = higher motivation
Wages = monthly to manual workers depending on the amount of labour they compete: encourages employee to work harder for more £££
Salary = fixed & payed in monthly instalments: firm & employees know the exact pay rate

Financial extras:

Commissions: paid to sales staff for every item they sell on top of a basic salary
Bonuses: lump sums added to pay if performance targets are reached
Fringe benefits: staff discounts, company car, gym membership, health insurance, pension contributions

Promotions:

Training to acquire new skills gives employees greater responsibility & higher wages = source of motivation

Job rotation: delegating new jobs to staff
Pros: reduces mundaneness of jobs on an assembly line = motivates staff
Cons: replacing one boring job with another doesn't improve job satisfaction, requires more advanced training To cater to a variety of jobs

Job enrichment: worker is given greater responsibilities e.g. supervising staff
Pros: enhances productivity by challenging workers
Cons: expectation of pay rises

Autonomy: workers having the liberty to make their own decisions
Workers are given a goal & achieve it by setting their own objectives
Pros: motivates as declares employee contributions to be valid
Cons: staff failure to achieve goals effects the whole business' performance so can reduce investment/sales/customer satisfaction ect, need constant performance reviews to ensure aims are being achieved